

GENERAL RETIREMENT SYSTEM
and
POLICE and FIRE RETIREMENT SYSTEM
BOARD OF TRUSTEES
CITY OF GRAND RAPIDS
MICHIGAN

MINUTES
JOINT MEETING
AUGUST 17, 2022 – 8:23 a.m.
233 East Fulton

The meeting was called to order by Chairman Hawkins. Other members present: Mr. David Tryc, Mr. Martin Timkovich, Mr. Philip Balkema, Mr. William Butts, Mr. Phillip Mitchell, Ms. Donijo DeJonge, Mr. Nathaniel Moody, and Mr. Justin Ewald. Absent: Mr. Craig VanderWall.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Lisa Davenport and Mr. Thomas Hogan of Neuberger Berman, Mr. Mark Roman and Mr. Steve McMillan of Grosvenor Capital Management, Mr. David Lindberg, Mr. Jake McClelland, and Mr. Steve DiGirolamo of Wilshire.

Mr. Balkema made the motion to excuse the absence of Mr. VanderWall. The motion was seconded by Mr. Ewald and carried.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of June 15, 2022. The motion was seconded by Mr. Timkovich and carried.

Ms. Lisa Davenport, CFA, Client Service Advisor and Mr. Thomas Hogan, Managing Director and Associate Portfolio Manager of Neuberger Berman (NB) presented their firm's annual report to Trustees. Ms. Davenport provided an overview of the firm, noting that NB: has 696 investment professionals; is 100% independently, employee owned; has approximately \$5 billion total assets under management; and 99% of clients' assets are managed by lead portfolio managers who have 20+ years of industry experience. Mr. Hogan reviewed the global equity team structure and noted that NB has an experienced team that utilizes a differentiated approach and consistent process to assist in risk management. He commented that NB's investment philosophy is a disciplined fundamental process to capitalize on international opportunities. Ms. Davenport noted that NB starts with a broad universe, employs a quality focus to analyze a company's return on invested capital and management quality, then they invest only in companies that fit their quality framework, including material ESG factors. NB is also dedicated to diversity, equity, and inclusion in their firm. NB has a valuation discipline and manages risk by seeking to mitigate portfolio-level risk through sector, country, and security diversification. NB employs a multidimensional view on quality and their proprietary dashboard displays the team's holistic portfolio view, which allows the managers to evaluate individual names. Each transaction is designed to maximize return potential and minimize risk per the given level of quality in the team's quality universe and their systematic process is designed to ensure consistency in portfolio construction, monitoring, and trading. Mr. Hogan reviewed NB's ESG analysis and noted that they integrate and evaluate material ESG factors while engaging portfolio holding companies. NB employs a six-step continuous process for portfolio management oversight and governance: 1) investment management; 2) monitoring; 3) monitoring/engagement; 4) engagement/involvement; 5) involvement/oversight; and 6) oversight. Mr. Hogan reviewed the retirement

systems' objectives and portfolio guidelines and provided the following return statistics for both portfolios for periods ending June 30, 2022:

Annualized Returns – Net of Fees

	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yr.</u>	Since Inception of the Fund <u>07/20/18 – 06/30/22</u>
NB World ex-U.S. Trust Class III	-24.01%	-22.67%	3.30%	2.32%
MSCI AC World Ex-U.S. Index	-18.42%	-19.42%	1.35%	1.25%

Mr. Hogan commented that NB is focused on quality firms and companies that demonstrate resilience. Mr. Hogan reviewed the equity fund characteristics, holdings, sector allocations and attribution, market cap allocation, and regional and country attribution for the portfolios. He noted that there are no current SEC issues. The report was received and filed by Chairman Hawkins.

Mr. Mark Roman, Managing Director and Mr. Steve McMillan, Managing Director of Grosvenor Capital Management (GCM), presented their firm's annual update to Trustees. Mr. Roman noted that GCM has over 50 years of investing experience and they have \$71.0 billion in assets under management, of which, \$25.0 billion is in absolute return strategies. He noted that GCM has 517 employees and 164 investment professionals. Mr. McMillan stated the Opportunistic Credit Fund V is an evergreen commingled fund providing a single point of entry to an evolving set of differentiated opportunistic credit investments. The fund began in November 2016 and has \$1.42 billion in fund commitments. He reviewed the portfolio construction for the fund and commented that they target 10-25 managers. Mr. McMillan stated that positive performance during the year was driven by the specialty lending and loan portfolio strategies and gains were partially offset by corporate credit and emerging market allocations. Risks to growth have impacted credit in 2022 as they have led to increased credit spreads and volatility. He noted that inflation and slowing growth have increased recession risks and the outlook in corporate profitability and consumer sentiment has weakened. The dispersion in credit markets is rising, providing an attractive environment for active credit selection and potential alpha generation. Mr. McMillan noted that credit spreads are at post-COVID highs as they have widened materially in recent months. He reviewed the activity in the portfolio so far in 2022. Mr. McMillan provided the following returns for the period ending June 30, 2022:

	<u>GCM Opp. CF V</u>	<u>Credit Suisse Distressed Loan Index</u>	<u>Credit Suisse High Yield Index</u>	<u>Credit Suisse Lev. Loan Index</u>
2016 (2 months)	1.60%	4.50%	2.00%	1.47%
2017	5.81%	2.22%	7.02%	4.26%
2018	2.37%	1.63%	-2.37%	1.14%
2019	8.45%	-2.75%	14.00%	8.17%
2020	0.93%	0.83%	5.48%	2.78%
2021	9.73%	15.03%	5.49%	5.42%
2022 (YTD 6 months)	0.04%	-17.22%	-13.42%	-4.45%

Since 11/2016:

Cumulative Return	32.23%	1.37%	17.06%	19.82%
Annualized Return	5.05%	0.24%	2.82%	3.24%

The report was received and filed by Chairman Hawkins.

Mr. David Lindberg, Mr. Jake McClelland, and Mr. Steve DiGirolamo presented the quarterly performance report to Trustees. Mr. Lindberg introduced Mr. DiGirolamo stating that he will now be the main point of contact with Wilshire; Mr. Lindberg will move on to serving other areas at Wilshire. He will

still be available for Trustees for any questions or issues. Mr. Lindberg commented that the U.S. stock market was down 16.8% for the second quarter, the largest quarterly drop since the global COVID shutdown in early 2020. Every sector was in negative territory. Large and small cap performed similarly while growth stocks underperformed value. Rising inflation, which began in late 2020-early 2021, continues to accelerate this year, reaching levels not seen in four decades. Transportation costs have accelerated with new and used vehicles up in the double-digits and transportation services up 8%. In Germany economic growth is slowing on both inflation and falling exports while economic indicators in the U.K. are still in the expansion range, measures of new orders have fallen while business confidence levels have slumped. In China, new COVID controls were imposed in some areas but have since been lifted. The U.S. Treasury yield curve was up across all maturities with the 10-year at 3.02%. The FOMC increased their overnight rate by 0.50% in May and 0.75% in June; targeting a range of 1.50% to 1.75%. Mr. Lindberg provided Trustees with Wilshire's June 2022 asset class assumptions and an extensive update on employment conditions and the U.S. equity market, non-U.S. equity market, U.S. fixed income market, and the high yield bond market. Following a review of the capital markets, the Quarterly Funds Evaluation of the investment managers of the General and Police & Fire Retirement Systems was conducted.

**SUMMARY OF INDEX RETURNS
PERIODS ENDED 06/30/22**

<u>Plan</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
General Retirement System	-9.47	-5.79	6.78	6.58	7.52
Policy Index	-9.73	-6.43	5.45	5.64	6.31
Police & Fire Retirement System	-9.62	-6.14	6.66	6.49	7.48
Policy Index	-9.73	-6.43	5.45	5.64	6.31

General Retirement System

Asset Commitments as of 06/30/22:

Domestic Equity	15.8%
Non-U.S. Equity	14.6%
Fixed Income	23.8%
Global Low Volatility	10.0%
Real Estate	4.8%
Private Equity	9.2%
Commodities	5.6%
Midstream Energy	5.5%
TIPS	5.2%
Private Credit	5.0%
Cash Equivalents	0.5%

Asset Allocation to Managers:

NTAM	10.5%
PIMCO	3.3%
Wellington Management Company	2.1%
Neuberger Berman	7.3%
Harding Loevner	7.3%
BlackRock	10.0%
CenterSquare	4.8%
Wellington Commodities	5.6%
Brown Brothers Harriman	5.2%
Harvest Fund Advisors	5.5%
Adams Street Partners	7.7%
Aberdeen Asset Management	1.5%
Grosvenor Capital	3.7%
50 South Capital	1.3%
Baird Advisors	12.1%
Western Asset Management	11.7%
Cash Account	0.5%

Police and Fire Retirement System

Asset Commitments as of 06/30/22:

Domestic Equity	16.3%
Non-U.S. Equity	15.0%

Asset Allocation to Managers:

NTAM	10.8%
PIMCO	3.2%

Fixed Income	24.0%	Wellington Management Company	2.3%
Global Low Volatility	9.6%	Neuberger Berman	7.6%
Real Estate	4.9%	Harding Loevner	7.4%
Private Equity	8.9%	BlackRock	9.6%
Commodities	5.7%	CenterSquare	4.9%
Midstream Energy	5.6%	Wellington Commodities	5.7%
TIPS	4.7%	Brown Brothers Harriman	4.7%
Private Credit	4.7%	Harvest Fund Advisors	5.6%
Cash Equivalents	0.7%	Adams Street Partners	7.4%
		Aberdeen Asset Management	1.5%
		Grosvenor Capital	3.5%
		50 South Capital	1.2%
		Baird Advisors	12.3%
		Western Asset Management	11.7%
		Cash Account	0.7%

Board approval was requested for attendance at the following conference: the Baird Advisors Conference to be held September 11 - 12 by Chairman Hawkins, Mr. Tryc and Mr. VanderWall; the Fall MAPERS Conference to be held September 18 - 20 by Chairman Hawkins, Mr. Timkovich, Mr. Ewald, Mr. Mitchell, Ms. Balkema, and Ms. Korzen. {Mr. Mitchell left at 10:00 a.m.} Chairman Hawkins proposed covering the cost of Saturday at the conference due to its logistical challenges to arrive on time for Sunday sessions. If a Trustee/staff member does stay on Saturday then he/she will be required to attend all sessions on Sunday. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy and have the System cover the cost of Saturday at the conference location as outlined by the Chairman. The motion was seconded by Mr. Ewald and carried. Mr. Tryc made the motion on behalf of the General Retirement System to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy and have the System cover the cost of Saturday at the conference location as outlined by the Chairman. The motion was seconded by Mr. Timkovich and carried.

The Executive Director next addressed the current lease with the Masonic Center Building by noting that the anniversary date of the lease commencement is July 1, 2022. The base rent of the lease agreement is adjusted annually for the cost of living. She stated that the base rent for the Retirement Systems office space will be adjusted by the current CPI which is 4.3%. Starting July 1, 2022, the new monthly rent will be \$2,616.21 Ms. Korzen noted that the current lease with the Masonic Center will be up for renewal on July 1, 2023.

Chairman Hawkins next addressed the Executive Director's performance evaluation and the need for succession planning. He noted that they will be utilizing a slightly different process for this year's evaluation. He stated that he and the two Vice Chairs recently met with Ms. Korzen regarding her anticipated retirement. She stated that she will likely be retiring in early 2024. The meeting took place to begin a dialogue to chart out the necessary steps to take during the next 1½ years and what qualifications Trustees will be looking for in a replacement. Ms. Korzen may also be hired on a contractual basis after her retirement to ensure a smooth transition to the new Executive Director.

The Executive Director provided Trustees with a proposal from PBI Research Services for death audit services. She stated that currently the Northern Trust Company provides quarterly death searches for both plans; two of which are free. The other two searches are nominal, \$0.15 per participant. The searches are not ideal as the results include several names of individuals that perhaps share the same last name and birthdate but nothing else matches. There is a lot of leg work required by the Retirement Systems office

staff to ensure they are not Retirement System retirees. She spoke with Michelle Balcom at Kent County and they utilize a company called PBI; Ms. Balcom had very positive things to report from using this company. Ms. Balkema agreed with the Executive Director regarding the Northern Trust death searches and added that PBI would be a 3-year commitment and for the first year, each participant in the search would be \$2.50. The data from the Retirement System would be uploaded into PBI's secure portal and once each week they would provide the Retirement Systems with a report outlining any matches. Unlike the searches that Northern Trust completes, PBI certifies that if any participants are showing as deceased they are indeed a participant of the Retirement Systems. PBI completes all of the background work to certify their findings. Mr. Balkema asked about their secure portal system as that would be a significant amount of personal data being shared. Ms. Korzen stated it is a secure portal similar to the one utilized by the Retirement Systems' actuary for benefit calculations. Following Trustee discussion, Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to hire PBI for their CertiDeath product as outlined in their proposal, subject to successful review of the contract by legal counsel. The motion was seconded by Mr. Ewald and carried. Mr. Tryc made the motion on behalf of the General Retirement System to hire PBI for their CertiDeath product as outlined in their proposal, subject to successful review of the contract by legal counsel. The motion was seconded by Mr. Butts and carried.

There were no comments on items not on the agenda.

Chairman Hawkins stated that the following Trustees and staff attended a dinner with Ms. Lisa Davenport and Mr. Thomas Hogan of Neuberger Berman: Chairman Hawkins and spouse, Mr. Moody and spouse, Mr. Mitchell and spouse, Mr. Ewald and spouse, Mr. Butts and spouse, Mr. Timkovich and spouse, Mr. Tryc and spouse, and Ms. Korzen and guest.

The meeting adjourned at 10:22 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 21, 2022, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems